

**MEMORANDUM**

To: CMAP Board

From: Dolores Dowdle
Deputy Executive Director, Finance and Administration

Date: September 3, 2014

Re: Approval of Investment Policy Revision

On January 9, 2008, an Investment Policy was adopted for CMAP. The policy was based on Illinois statutes and best practices of governmental agencies, with a primary objective for safety, liquidity and maximizing the rate of return. At that time, CMAP had two checking accounts (general and payroll) at Bank of America and investments in the Illinois Funds, either the Money Market account or the Prime Funds account. Also the federal banking regulations provided insurance for financial institutions through the Federal Deposit Insurance Corporation (FDIC) to a maximum of \$100,000 per depositor.

Currently, CMAP has one account at US Bank that handles both payroll and accounts payable and two investment accounts at the Illinois Funds; one for the general investment and one for the Peters Fellowship program. The Illinois Funds has restructured its fund to have only one type of account and has eliminated the Money Market account and the Prime Funds account. Currently the interest rate for the Illinois Fund account is 0.017%. The federal regulation has been revised to provide FDIC protection to a maximum of \$250,000 per depositor. CMAP's operating procedure is that the US Bank account not exceed \$75,000 except when payroll or payables are being processed. At that time, funds are transferred the day before checks or Automated Clearing House (ACH) payments are made.

Last year when the annual review was conducted of the CMAP financial records, it was noted by the financial auditors that \$637,037 was uninsured and uncollateralized funds in the US Bank account. The balance was higher than normal because it was on the day accounts payable and payroll was processed and it was the last day of the fiscal year. The auditors recommended that CMAP obtain collateralization for funds which exceed the federal depository custodial credit risk associated with uninsured and uncollateralized deposits.

The staff requested US Bank to collateralize its account and, unfortunately, the bank declined to do so. A request was then forwarded to five banks (US Bank was included) to obtain proposals

for banking services with funds collateralized—either covering only the checking account or both the checking and investments accounts. Only one proposal was received. BMO Harris Bank proposed for full collateralization of the balances of the checking and investment accounts. The investment accounts can be placed in the Public funds Money Market Account, which is currently paying an interest rate of .15%.

It is recommended that the Board approve the revision to the Investment Policy to reflect that CMAP funds can be deposited at a financial institution if it is fully collateralized and also approve the selection of BMO Harris Bank for checking and investment services.

ACTION REQUESTED: Approval

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CHICAGO METROPOLITAN AGENCY FOR PLANNING

INVESTMENT POLICY

OBJECTIVE

The purpose of the investment policy is to establish cash management and investment guidelines for officials responsible for the stewardship of public funds. Specifically, the following objectives are adopted:

1. **Safety of principal.** Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities defaults or erosion of market value.
2. **Liquidity.** The investment portfolio should remain sufficiently flexible to enable CMAP to meet all operating requirements which may be reasonably anticipated in any fund.
3. **Maximum rate of return.** The investment portfolio should be designed with the purpose of regularly exceeding the average return of three month United States Treasury Bills. The investment program should seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.
4. **Public Trust.** In managing its investment portfolio, officials should avoid any transaction that might impair public confidence in CMAP. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

RESPONSIBILITY

Responsibility lies with the Deputy Executive Director for Finance and Administration for the implementation of procedures to operate the financial program consistent with the objectives of this Investment Policy. The Deputy Executive Director for Finance and Administration will also oversee CMAP's investment practices. The procedures shall provide for proper internal controls.

INVESTMENT INSTRUMENTS

Illinois law provides for the investment of public funds in specific types of investment instruments. Among those appropriate for CMAP are:

- Passbook Savings Account
- Now, Super Now and Money Market Accounts
- State Treasurer's Investment Pool (Illinois Funds)
- Money Market Mutual Funds

- Certificates of Deposit (C.D.)
- Treasury Bills

FINANCIAL INSTITUTIONS

Financial institutions shall be selected on the basis of the following criteria:

1. **Security.** CMAP will not maintain funds in any financial institution that is not a member of the Federal Deposit Insurance Corporation (*FDIC*) or Federal Savings and Loan Insurance Corporation systems, with the exception of the Illinois Public Treasurer's Investment Pool.
2. **Amounts.** CMAP will ~~make strive to~~ limit its credit risk at financial institutions by not maintaining amounts in excess of \$100,000 in any one institution, with the *FDIC insured limit unless the financial institution has fully collateralized the funds.* ~~exception of the Illinois Public Treasurer's Investment Pool, The Illinois Funds is a money market fund created in 1975 by the Illinois General Assembly to provide custodians of public funds with an alternate investment vehicle which enables them to earn a competitive rate of return on fully collateralized investments, while maintaining immediate access to invested funds. Because these investments are fully collateralized, there is no exposure to custodial credit risk.~~
3. **Services and Fees.** Any financial institution selected shall provide normal banking services, including, but not limited to: checking accounts, wire transfers, purchase and sale of investment securities and safekeeping services. Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the CMAP representative on an annual basis. Fees for services shall be substantiated by a monthly account analysis and ~~shall be reimbursed by means of compensating balances.~~
4. **Avoidance of Conflict of Interest.** Funds shall not be invested in any financial institution in which a CMAP Board Member or a senior staff member of CMAP has a significant financial interest. Annual ethics statements will be required of all staff members associated with handling investment transactions.

INTERNAL CONTROLS AND REPORTING

The Deputy Executive Director of Finance and Administration shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by an independent certified public accountant in conjunction with the annual examination of the financial statements of CMAP. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of CMAP.

One of the required elements of the system of internal controls shall be the timely reconciliation of all CMAP bank accounts. Bank reconciliations shall be performed on a monthly basis and shall be completed no later than thirty (30) days after the end of the monthly cycle.

The Accounting Officer shall submit weekly financial reports, including the status of all investments, to the Deputy Executive Director of Finance and Administration, who shall in turn

report such matters to the Executive Director. The CMAP Executive Committee will receive a report on such matters at its regular meeting.

From time to time, the Deputy Executive Director of Finance and Administration may recommend to the CMAP Executive Committee policies, improvements, and changes that might be made to the investment program.

INDEMNIFICATION

The standard of prudent to be used by investment officials of CMAP shall be the “prudent person” standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

The above standard is established for professional responsibility and should be applied in the context of managing CMAP’s overall portfolio. Investment officers of CMAP acting in accordance with this investment policy should be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse developments.

AMENDMENT

This Policy shall be reviewed from time to time and any changes shall be presented to the CMAP Executive Committee for approval.

SPECIAL CONDITIONS

From time to time CMAP may enter into grant agreements which preclude depositing funds in interest-bearing accounts. CMAP, therefore, could maintain at least one non-interest bearing bank account for such funds.